



Delivering for London

Modernising Local Authority Procurement

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Executive Summary

The Capital Ambition Programme Board (CAPB) asked, at its July meeting, for a report to be prepared which in broad terms¹ was to:

- ◆ Look at the current organisation of the London authorities' procurement teams responsible for acquiring, managing and controlling London's £8.9B third party influenceable expenditure
- ◆ Ascertain the opportunities for additional cashable savings / efficiency gains that could be derived from more collaborative working, shared contracting and the use of shared resources
- ◆ Set out the categories for extended collaboration based on detailed analysis of the expenditure profiles and supply bases of the 33 London local authorities
- ◆ Make suitable recommendations for the way forward, and what Capital Ambition could do during the remainder of this financial year to extend collaboration.

The overall goal was to ascertain how Capital Ambition could improve or enhance the current procurement and commissioning structures across London to deliver challenging and sustainable levels of cashable savings of at least 15% cumulative over the next three financial years.

The key findings were:

- ◆ The current organisational model, based on individual procurement teams in each London local authority, will struggle to meet even modest cashable savings targets unless there are significant changes
- ◆ While there are many excellent examples of successful outcomes and negotiations achieved through collaboration, there is significant scope for extending this to about 40% of London's third party expenditure
- ◆ Shared procurement teams between neighbouring / like minded authorities, including Directors of Procurement, would make commercial sense particularly where sub-regional / cluster activity is well defined.

The mapping exercise of the 2008/09 influenceable expenditure, based on returns from 29 London local authorities, showed that around

¹ Full Terms of Reference are at Appendix A

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40% of expenditure, £3.5B, could be 'commoditised' to drive out cost. Achieving this goal would engender far greater collaboration, e.g. by encouraging the development of shared contracts, greater use of e-Auctions and the introduction of shared category teams. The remaining 60%, or £5.4B, comprising most of the high risk project work would, at present, remain under local control. However, this should undergo robust challenge and far more commercial scrutiny within most London local authorities.

Accelerating and progressing collaboration does not need to be expensive, or require the creation of huge centralised procurement departments to manage it. It requires:

- ◆ Smarter use of existing resources with strong coordination and communication
- ◆ Greater focus on shared working / contracting and category management
- ◆ Use of some minimum defined engagement rules – to ensure that decisions are taken and benefits accrued
- ◆ On going leadership, support and involvement by CEOs / political leaders to ensure that it happens and that all potential opportunities to make cashable savings are investigated and pressed home where proven to be realistically achievable.

Changing the status quo can prove emotive particularly where control has always been vested at the lowest level. However, ignoring the collaborative opportunity will mean that:

- ◆ Individual local authorities will struggle to deliver large scale and sustainable savings from their current 3rd party spend
- ◆ Large suppliers will still hold commercial advantage over the fragmented London local authorities
- ◆ Large anomalies will remain in the unit costs of like for like activities in many category areas
- ◆ London will be unable to act as London where it is advantageous to do so.

The commercial advantage that even small groups of jointly working London local authorities (let alone all 33) can have on markets and key suppliers cannot be overstated. The six recommendations in this report are designed to help make this happen based on achieving a consensus on which are the categories where collaboration should be extended to untap significant levels of new cashable savings. Every London council is at a different stage and will have its own preferred route to extending collaboration. This report pinpoints the categories where efficiency opportunities exist through collaboration and what each authority needs to do to exploit them.

The impetus for collaboration has got to come from groups of local authorities, especially with the demise of Capital Ambition after June 2011. It is at a local level that ownership of this agenda and the resultant delivery of cashable savings has to come. This presents an opportunity for London local authorities to deliver for their own benefit and to show the UK what can be done to modernise

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procurement /commissioning activities.

Recommendations Summary

The Capital Ambition Programme Board:

- [R1] Agrees the outcomes from the expenditure mapping exercise and associated business case for extending collaborative working / shared contracting into these category areas**
- [R2] Supports the ongoing residual role beyond March 2011 for maintaining regional collaboration including the retention of the CRS/OEA to support the sharing of information, the migration towards common data standards and the provision of a regional analyst resource**
- [R3] Notes the ongoing contribution towards the generation of new sources of cashable savings from the current energy, ICT, highways maintenance, construction and commercial fleet projects and supports their continuity after March 2011, subject to any financial considerations**
- [R4] Agrees that the level of collaboration required will vary on a category by category basis rendering a single organisational model for London local government impractical, but notes the need to promote minimum rules to ensure that collaboration can work**
- [R5] Develops a concise prospectus setting out the priorities for those categories deemed to be capable of extended collaboration, including opportunities to be looked at minimum functional content**
- [R6] Supports monthly reporting to London Chief Executives and Treasurers on progress being made with the extension of collaborative working**

1. Background

This section sets out the background to this study and the importance of its contribution into mapping the future landscape of London local government procurement.

1.1 Introduction

The UK public sector is facing its largest contraction in a generation with expected budget reductions in the coming three years estimated to be at least 20%. In local government, these reductions are being felt in all areas causing many local authorities to make tough decisions on the range and quality of services they provide. Influenceable expenditure with third party organisations is the second largest cost after staff costs in London's local government. In 2008/9² it stood at £8.9B having slid from a peak on £9.6B in 2006/7. Many elected Members and chief officers are actively seeking reductions in the direct costs of third party contracts and are challenging the effectiveness and appropriateness of the organisations and departments that currently undertake this activity. In very simple terms, a 20% reduction in this expenditure across the board would yield about £1.8B³ or nearly £55M from each London local authority.

At its July meeting, the Capital Ambition Programme Board (CAPB) commissioned a short, but in depth piece of work, to look at the effectiveness of the way services, products and works are acquired across London local authorities. They were particularly interested in understanding:

- ◆ the current organisational and supporting structures allocated to managing this expenditure
- ◆ its ability to deliver the desired cost reductions
- ◆ what changes needed be made to ensure that individually and collectively London local authorities could improve the use of current resources and increase the levels of cashable savings delivered. This was to include a full mapping of London's 3rd party expenditure to establish the optimum engagement level for contracting for all major categories
- ◆ the options for doing this and associated costs

² The 2009/10 figure is expected in September 2010. At the time of writing this report two data sets are still awaited promised before end September 2010

³ No distinction is made here between capital and revenue or one off central government grants

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The full terms of reference together with objectives, scope and fieldwork details are at Appendix A.

1.2 Report Structure

This report has been written in two parts:

- ◆ The main report with summary findings and recommendations (*Delivering for London – Modernising Local Authority Procurement*)
- ◆ The supporting evidence which contains maps, graphs and tables to support the main report (*Delivering for London – Supporting Maps and Evidence*). This has been produced in PowerPoint format

1.3 Expert Panel

The final report has been reviewed by an Expert Panel to validate the report content, findings and recommendations. This does not imply that they or the organisations employing them concur with the findings or agree the recommendations made.

The panel comprised.

- ◆ John Skivington (Director London Housing Consortium)
- ◆ Mike McHugh (NHS London Procurement Programme)
- ◆ David Shields (Deputy Director, Efficiency and Reform Group⁴)

⁴ David has just been appointed Procurement Delivery Director, Executive at Buying Solutions

2. Changing the Landscape

This section sets out the core principles that need to be followed if London local authorities are to make the most of collaborative working. It also assesses the pre-requisites for success that underpin these principles and which need to be in place to accrue the best commercial outcomes from all their major contracts / acquisitions and the ability to deliver increased levels of cashable savings.

2.1 Core Principles

In July 2009, the Capital Ambition Programme Board approved a London wide procurement strategy which set out the key principles for ensuring that all London local authorities were able to deliver best value for money in their third party expenditure. The key theme of the strategy was smarter working, with collaboration between two or more authorities featuring as the major future opportunity.

London local authorities vary widely in the way they organise their procurement / commercial activities. Also, the sub-regional groups that could help coordinate collaborative working / contracting also varied widely in terms of governance, maturity and capacity. Therefore, the primary challenge for any pan London strategy was the ability to define the core principles which were needed to bring London authorities closer together, but which also commanded overwhelming, if not unanimous support. These principles were seen as:

- ◆ Balancing the need for cashable savings with a guarantee of appropriate outcomes and standards
- ◆ Having access to accurate and reliable sources of information, supported by market knowledge at the outset
- ◆ Establishing the appropriate level to engage with markets / suppliers (local, cluster, sub-regional, regional or national level) taking into account the potential savings opportunities, likely distortion of markets and return on investment
- ◆ Focusing on outcomes in order to maximise the opportunity for the private⁵ and voluntary sectors to innovate and remove costs from the services and products that they supply
- ◆ Pursuing a 'mixed economy' approach to delivering outcomes and reflecting the widely differing complexity and maturity of markets and the associated supply base across the whole range of services and products acquired

⁵ This includes SMEs and all those involved in delivering services to local government

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- ◆ Promoting the development and measurement of full life cycle costs in all major contracts
- ◆ Encouraging a Chief Officer (at least) to have the final say on whether a London local authority wishes to collaborate or enter into a shared contracting / collaborative category venture
- ◆ Treating all Public Buying Organisations⁶ as another source of supply that need to justify their value rather than being an assumed / preferred route to market

Capital Ambition has already been active in promoting these principles through its procurement and efficiency projects and has already contributed to notable successes and cashable savings in areas such as:

- ◆ **Energy** - The London Energy Project (LEP) has led the way, by bringing together London local authorities to change the business model for buying energy, demanding and securing changes to the provision of standard electronic (XML) billing, and insisting on the publication of comparative information to allow London to benchmark annual performance achieved against overall market changes. This is an excellent example of 'London acting as London' as none of this could have been achieved by London local authorities acting alone or even in sub-regional groupings.
- ◆ **ICT** - Capital Ambition funded the March 2009 ICT e-Auction which delivered £1.9M cashable savings between the 16 London local authorities that took part building on the £3.8M that had been saved two years earlier. The 16 authorities have joined with 31 other public bodies to form a London ICT Contracts Board tasked with delivering even more value to the participants - these include:
 - ◆ Claiming back a £850k rebate following dollar/pound currency fluctuations
 - ◆ Resisting tabled cost increases because of component changes
 - ◆ Instigating new areas for joint contracting / e-Auctions

Other similar work is being / has been undertaken in diverse areas such as the use of **temporary agency staff, provision and management of commercial fleet, highways maintenance contracts, construction** and **postal services**. It is doubtful whether much of this would have been achieved by any individual London authority acting in isolation.

⁶ There are 45 of these across the UK public sector according to the HMT Operational Efficiency Programme (April 2009)

2.2 Prerequisites for Success

While there is widespread agreement that shared contracting and collaborative working, delivers cashable savings in many areas, there are certain prerequisites that need to be in place for this to become a reality. These prerequisites are set out in the following paragraphs.

2.2.1 Shared Information and Common Data Standards

Collaboration and joint contracting are typically hampered by the absence of good quality information, which has meant the ability to plan and focus resources, create joint work programmes and leverage commercial advantage often is a major challenge. Capital Ambition has been very active with its work in helping every London local authority share information and improve data standards.

The ability to capture and report on procurement data has been a public sector problem since the first initiative to manage non-MOD public sector procurement in 1984⁷ and was still present in 2009 as HM Treasury's OEP commented that this was "**the single biggest factor preventing the quantification of the case for increased departmental and wider public sector collaboration.**"

Capital Ambition has made tackling these issues an overriding priority. This has included:

- ◆ Putting in place the London Contracts Register Service (CRS) in 2006, which is now used by about 1,000 users in all, bar one, London local authority and has contract details⁸ covering about 40% of London's total spend in place
- ◆ Tackling the issue of data standards. LB Hammersmith and Fulham and LB Camden were on the study team in 2004-5 that recommended the use of a standard local authority procurement classification system. The output, ProClass, has since become a defacto standard for English local government and is now mapped to overlay the different coding systems and versions used, so that information can be extracted and compared with greater confidence. The ProClass taxonomy is managed by Coding International Ltd as is actively used in 8 of the 9⁹ English regions
- ◆ Expanding the CRS to include an integrated expenditure analysis capability in 2008 which is now used by all, bar two, London local authorities

⁷ Cabinet Office report to Prime Minister ISBN 011430002

⁸ Most authorities only enter contracts with a life time value greater than £100k

⁹ Only NE England has declined to take part

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- ◆ Undertaking mapping of expenditure codes / suppliers to ProClass in 2008/9 and 2009/10, which has achieved an overall 94% match success – this work has allowed this report to be compiled and has driven business cases for new collaborative ventures

While there are ongoing issues around coverage, accuracy of some mappings, and service usage, most London local authorities recognise the value of sharing good quality information and are taking an active role in driving up data standards. For the first time this work allows London local authorities to understand the scale of the ongoing opportunities for cashable savings beyond authority boundaries.

2.2.2 Exercising Influence

There is still a widely held misconception that the competitive tendering process on its own is the best method of delivering cashable savings. While this process is the channel through which savings will be delivered and is the best way to help differentiate suppliers in a given market place, the added value is often eclipsed by the costs needed to conduct the process. This is unavoidable as all public procurement is governed by the European Union Public Procurement Directives.

Yet all London local authorities £8.9B spend will follow, to one degree or another, the following commercial cycle in every acquisition that they make – see Figure 1.

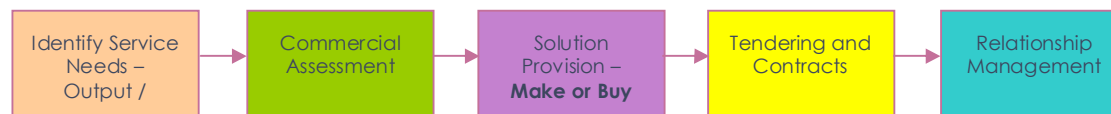


Figure 1 – The Commercial Life Cycle

Understanding the working of this cycle identifies clearly where prioritisation and resource efforts need to be applied. It also shows that 'commissioning' and 'procurement' are different aspects of the same acquisition cycle.

There are four main points from appreciating this cycle in relation to the ability of any local authority to deliver high and sustainable level of cashable savings. These are:

- ◆ The quality of outcomes and levels of savings likely to be achieved through a competitive tendering process are determined by the quality of the activity undertaken in the first three boxes. These activities are usually undertaken by people from service departments across London. It is at these stages that commercial influence and input needs to be at its highest. It is also covers the

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'commissioning' process.

- ◆ Decision making and ownership across these three boxes needs to be shared by service departments with colleagues from legal, finance and procurement backgrounds. There also needs to be an active challenge programme in place to ensure that delivery options, market considerations and risk assessments have been appraised and evaluated for all major contracts. Some London authorities such as LB Hammersmith and Fulham, and LB Enfield have set up specific 'challenge' groups to do precisely this, with very encouraging results in diverse areas such as home care, leisure provision and parking management.
- ◆ The tendering and contracts activity consumes about 75% of effort but can often add disproportionate cost and delay rather than value. This has led to a proliferation of framework contracts which rarely offer any added value without accompanying guaranteed / best estimates levels of business. In some cases, local authorities will be paying list prices for the benefit of avoiding the delays caused by a drawn out tendering process.
- ◆ About 75% of the contract life cycle is found after contract award. It is at this point suppliers will attempt to recoup their costs and/or savings concessions made to win the business, and also attempt to increase their revenue streams. Research and work carried out by Andy Davies¹⁰ for the LCE Contracts and Relationship Management project showed that this is a serious weakness for most local authorities. While most major contracts, particularly PFIs and PPPs are well managed, for most others, including outsourcing arrangements, contract management is poor to non-existent. The reasons for this are varied, but include lack of resource and awareness, and scarcity of in-house skills.

The central government procurement landscape has changed radically since the May 2010 General Election which arguably also gives an early indication of the future direction of travel for procurement. Central government has identified and mandated the use of central contracts for a range of commodity goods and services, starting with the basics such as office furniture and travel, but soon encompassing the more challenging areas of vehicles, construction materials, and services such as agency staff and professional services. Even on energy, the Efficiency and Reform Group (formerly OGC) is now looking to remove the PBO interface from its energy provision and negotiate directly with the electricity generating organisations for the provision of their future demands.

The Scottish Government introduced a similar model following on from the 2005 McClelland Review which mandated the usage of public sector and sectoral contracts, for all the public sector including the 32 Scottish unitary local authorities. This single approach in Scotland has delivered additional cashable savings to some of the poorer performing local authorities and has also freed up resources from dealing with repetitive, low value items. All Scottish local authorities are now using a standard cataloguing system provided by

¹⁰ You and Your Contractor published by the LCE in 2007 and available from Capital Ambition

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Scotland Excel for the majority of their routine items.

2.2.3 Skills and Capabilities

There are significant variations in the organisation, skills availability and capabilities across the 33 London local authorities even though they engage in very similar business activities.

A Capital Ambition London Procurement Survey,¹¹ although limited to the corporate procurement teams, showed that:

- ◆ The size of these teams varies from 1-5 to 20+ with the average in the 6 -10 range
- ◆ Only five authorities have any category managers ranging between 1 and 3 posts, with the remaining authorities having none at all – this is despite all evidence indicating that category management teams deliver the highest level of cashable savings
- ◆ Levels of influence over the whole third party expenditure portfolio varies considerably from less than 10% to 75%, but with most being limited to 25%

Previous studies have also shown that there is a high turnover of staff amongst the local authority corporate procurement teams with a heavy use of interims in many or vacant positions in others. This has been a long standing problem and is caused by:

- ◆ Strong competition from other public sector bodies and the private sector
- ◆ Low salary ranges for category specialists, creating recruitment and retention problems – this is often created by a heavy reliance on grade evaluation schemes that do not recognise how market forces govern the availability of such specialists
- ◆ Wide salary ranges for the Heads of Procurement – the starting point needs to be at least £70k per annum if a London authority is to implement a determined cashable savings agenda
- ◆ Limited supply of competent CIPS¹² qualified staff

Arguably the recruitment and retention issue is a problem of our own making; in that London local authorities could be far smarter in the

¹¹ Findings are in the second part of this report *Delivering for London – Supporting Maps and Evidence*

¹² Chartered Institute of Purchasing and Supply – the recognised professional qualification

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way they recruit and share resources. This should definitely apply to the recruitment of category managers and even the appointment of Heads of Procurement. It is only by having multiple public sector clients that groups such as KCC Laser and Buying Solutions (both PBOs) can hire energy traders at salaries in excess of £100k, a figure that even before today's restrictions would be out of the range of any individual London local authority.

2.2.4 Adopting the Right Techniques

The range of London's third party expenditure, sourced from so many diverse markets, means that it is not possible to adopt a 'one-size fits all' approach to increasing the range of cashable savings. However, in the last ten years the focus of procurement teams in many local authorities, including those in London, has been deflected away from a formal savings focus to one with a greater administrative / policy focus. This has largely been brought about by the fear of breaching public procurement legislation, combined with the growth of the corporate social responsibility (CSR) agenda¹³ under the last government.

As a result involving the corporate procurement team is seen as a barrier / overhead to be avoided for many local authority service departments. The proliferation of framework contracts has been largely created to help reduce the 'tendering overhead' rather than drive down unit costs. While there have been some isolated successes, there is scant evidence that framework contracts, even those incorporating 'mini competitions', are capable of delivering the scale of cost reductions required by London local authorities.

The challenge is made even more difficult by the fact that in each year the percentage of total third party expenditure that presents itself in each authority for market testing may be as little as 20 to 25% of the overall spend made. Most of the expenditure will be recurring or under existing contracts which means that a wide range of commercial techniques will need to be used in order to make cashable savings. Table 1 sets out these techniques, all of which are proven to work in the public sector and all of which have been used by one or more London local authority. The challenge is now to deploy these across a far wider expenditure portfolio.

Technique	Definition (where required)	Delivery Horizon
Price Uplift Management	Price uplift control involves the management of contracted or random cost increases proposed by existing contractors over the life time of a contract.	Short Term
Demand Management	Efficiency and Reform Group ¹⁴ define it as: "The alignment of a business' consumption with its business requirements" They add that it "is applicable to all commodities where internal demand and	Short Term

¹³ Covering issues such as sustainability, local economy, use of SMEs/BMEs, diversity

¹⁴ Published in their Category Management toolkit in November 2009

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Technique	Definition (where required)	Delivery Horizon
	consumption can be influenced to reduce costs".	
Category Management	The grouping together of products and services, acquired by an organisation or a group of organisations to meet a perceived need or demand, which share common attributes / markets / suppliers, and turning them into areas of expertise.	Short / Medium Term
E-Auctions	An auction conducted in 'real-time' over the Internet which allows suppliers to compete for business by outbidding each other in terms of quality, price and/or other criteria.	Short / Medium Term
Supplier Relationship Development	It is defined by the Efficiency and Reform Group as: "the process to reduce costs or improve service from an existing supplier. The term describes activity ranging from a quick price benchmark to a long term project to improve interaction between the buying and supplying organisation."	Medium / Long Term
Contract and Relationship Management	The management of the interfaces between client and contractor to ensure that the relationship and contract performance are optimised to deliver best value	Medium Term
Partnership Sourcing	The use of public sector collective leverage to obtain products and services at a more competitive rate than their contracted suppliers are able to achieve in order to lower unit costs.	Medium / Long Term
Contract Renegotiation	Self explanatory	Short / Medium Term
Joint Contracting with others	Self explanatory	Medium / Long Term
Mandated national contracts for routine products / services	Self explanatory	Medium Term

Table 1: Cashable Savings Techniques Surveyed

2.2.5 Optimum Engagement Level

Contracting locally as opposed to assessing the optimum level to engage with suppliers / providers and exploit market characteristics to best effect is the defacto choice for most London local authorities. Joint contracting, using contracts let by other public sector bodies or sharing a procurement resource such as a category team is still the exception rather than the rule. While most authorities will buy some of their routine commodity items through a national or regional contract, numbers rarely reach above 5% of total third party expenditure. Yet for a lot of the local government expenditure portfolio (about 40%), supplier numbers are plentiful, markets mature and the opportunities to standardise / share common specifications are abundant. A lot of the resistance to undertaking procurement / acquisition exercises outside local boundaries is based on fear of losing control or even writing oneself out of a job. Some argue that shared contracts are too unwieldy or contract expiry dates are not aligned. However, none of these arguments is a reason for not changing the engagement level, particularly where significant cashable and efficiency savings are likely to be accrued. Capital Ambition has mapped London's third party expenditure to get an idea of what the optimum levels should be so that every local

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authority can start to consider the delivery infrastructure required. The results are summarised at section 3.1.

2.2.6 Sound Governance

The absence of sound governance is one of the major factors that undermines successful collaboration and is required in addition to a good business case, and appropriate resources invested in making it happen. This usually means regular involvement from chief officers as experience shows that without such backing good opportunities are lost because of lack of ongoing commitment. It is quite common for corporate decisions to withdraw from a collaborative project to be taken at a relatively junior level. While there are sometimes good reasons for individual authorities not to participating in a collaborative project, it is essential that the final decision rests with a chief officer who is able to consult other senior colleagues and ensure that the reasons are based on sound business or political reasons.

3. Smarter Working and Collaboration Opportunities

This section summarises the outcomes from the expenditure mapping exercise and sets out the opportunities for releasing more cashable savings through collaboration and shared contracting.

3.1 London's Expenditure Profile

London local government's third party influenceable expenditure¹⁵ was £8.9B¹⁶ in 2008/9. This far exceeds the expenditure of most large multi-national corporations in terms of value, range and complexity.

This expenditure goes to provide and maintain:

- ◆ Key infrastructures for London, such as buildings, roads, housing (in some instances), waste disposal and communications
- ◆ Direct client facing services, such as care provision, street cleansing, rubbish collection, libraries, parks and leisure
- ◆ Supporting equipment and services, such as agency staff, interims, translation, ICT, postal services, materials to maintain the infrastructure, and transport / vehicles

Analysis shows that 124,000 suppliers / providers acted as delivery agents for this expenditure, but much of it was concentrated in a relatively narrow spend band. 4,691¹⁷ (3.8% of the total) of these suppliers accounted for 85% of the total expenditure with the top 100 accounting for more than 25% of London's total third party spend.

The average number of suppliers / providers used by a London local authority has continued to fall from a peak average of 7,700 in 2006/7 to just 6,000 in 2008/9 – a drop of 22%. This can be attributed to a combination of a reduction in spend together with better management of the supply base. However, as with the London wide picture, an average of 257 suppliers / providers (4.3% of the total) account for 80% of a local authority's expenditure. Most of these suppliers are large corporations and multi-national bodies, often

¹⁵ All figures taken from the 2008/9 pan London Expenditure Analysis funded by Capital Ambition

¹⁶ This represents an average of just under £270M per London local authority

¹⁷ Of this total, 1002 (21%) are involved in the provision of social care, and 472 (10%) in construction

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operating on a cross public sector basis, and sometimes trading under different names through subsidiary companies. The supplier commonality between London local authorities for high value expenditure is striking. 4,327 suppliers/ providers (3% of the total used across the whole of London) trade with 5 or more London local authorities and account for 51% of London's total third party expenditure. This pattern repeats itself across London, as shown in the five defined sub-regions (see Appendix B for membership).

The management and control of third party expenditure is largely organised on an authority by authority basis but there are wide variations in terms of the coverage, influence, and organisation of the responsible teams in each authority. Broadly speaking, responsibility for managing this expenditure rests either with a corporate procurement team and/or individual service departments. Variations are wide and no two authorities are identical in the way they approach their procurement and commissioning activities. For example, while some corporate procurement teams do have executive support and buy-in, others operate on an advisory basis or are used to maintain governance rather than apply their commercial and negotiation skills.

Where service departments are directly responsible for expenditure the position is very similar. There are pockets of expertise and excellence in service departments across all London authorities, but similarly there are many areas where procurement and acquisition activity is done on a generalist basis, very often by staff that have little or no commercial training. The outcomes from this position are reflected in the results of London's expenditure analysis and in repeated surveys and research across the wider public sector; namely:

- ◆ Widespread duplication of effort on contracting – often with individual authorities competing for the same scarce resources
- ◆ Poor contract and relationship management - often resulting in significant price-up- lifts post contract
- ◆ Inappropriate levels of supplier and market engagement
- ◆ Too much focus on managing process rather than managing outcomes
- ◆ Huge variation in terms of unit costs and quality of outcomes in all spend areas – mostly where requirements and suppliers / providers are common
- ◆ Market conditioning by major providers exploiting the lack of commercial awareness and fragmented organisational structures

Appendix C summarises the organisational structure that exists in London at a sub-regional and regional level, as well as the national situation.

3.2 Expenditure Mapping Outcomes

The starting point for this analysis was about determining the level of engagement, i.e. national, regional, sub-regional, or local for every category /service acquired by London local authorities. This needed to reflect that:

- ◆ Some categories could split over more than one level, e.g. with some expenditure being committed locally and the balance sub-regionally
- ◆ Some categories could move a level up or down depending on factors such as contract availability, increased knowledge, and changes in markets / supply base
- ◆ Some categories were border line in that a case could be made for them to be placed at more than one level (e.g. sub-regional or regional)

No recognition was made of the ability of current organisations / structures to deliver appropriate outcomes at this stage – the mappings are based on what would be the optimum commercial level of engagement if these management resources and structures were already in place.

The mapping methodology used ProClass (version 10.2) against the 2008/9 data sets. A total of **£7.8B or 94% of total spend** was mapped in this exercise. The reasons why the remaining data could not be used were:

- ◆ Not easily classified (usually due to the ambiguity of the subjective code and/ or the range of services provided by the supplier/provider)
- ◆ There is no appropriate ProClass classification. This usually means that the spend is residue non-influenceable, such as a precept payment to the police and should be ignored
- ◆ Relatively low in value, thus making the deployment of more research resources uneconomic at this stage

The following factors were considered when deciding the appropriate engagement level for each ProClass category:

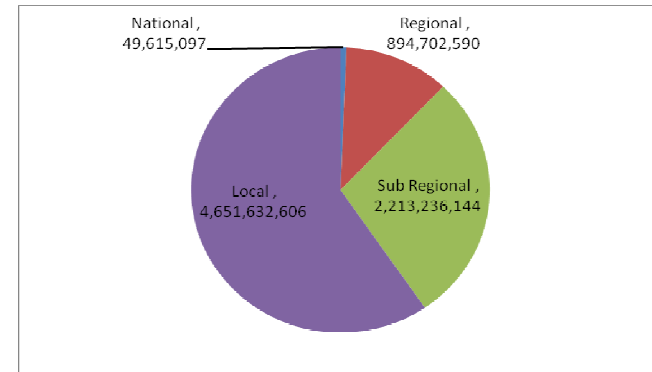
- ◆ Overall total spend for London and number of authorities with declared expenditure
- ◆ Number of suppliers used to supply the category including the predominant supplier types
- ◆ Overlap of suppliers used between authorities

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- ◆ Likely maturity of market including ease of gaining supplier/provider interest
- ◆ Likely risk of exposure to an individual authority of supplier/provider failure

A judgement was then made as to what level of engagement was most likely to provide the optimum outcome. For many categories, the judgement was straightforward, while in others there was a good case for them to be split across more than two levels. In all cases where there were clear risks associated with financial / political / commercial failure, the allocation was always to remain with local control.

Figure 2 shows the results achieved from this exercise. The reader should assume a +/- 5% tolerance at each level. It should also be noted that there is scope for these percentages to change away from local acquisition as this was the default setting in the event of any doubt at the right level of engagement.



	Total Spend		Number of Inv Lines	
National	£0.5B	1%	278K	7%
Regional	£0.9B	11%	895K	23%
Sub Regional	£2.2B	28%	1,188K	31%
Local	£4.7B	60%	1,478K	39%

Figure 2 – Outcomes of Mapping Exercise

The mapping, the details of which are available under separate cover, showed that, 60% of the total expenditure, for the time being at least, should remain at individual authority level. However, 40% lends itself to collaboration / shared contracting with sub-regional / cluster working¹⁸ being the best basis to collaborate. This outcome confirms the widely held view that the optimum engagement level is not necessarily at local level (too small) or regional level (too unwieldy) but somewhere in between. Other factors that need to be

¹⁸ A cluster can mean any formal arrangement comprising two or more local authorities which does not have to be constrained by existing sub-regional boundaries / groupings.

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considered are:

- ◆ It is easier to agree, and manage, a cluster of, say three to six authorities rather than thirty three across the whole of London
- ◆ The sub-regions, particularly the WLA, have shown the benefits of having well established governance to take and enforce decisions
- ◆ Most London local authorities do not have ready access to formalised sub-regional organisations with the capacity to undertake collaborative working / shared contracting
- ◆ For most expenditure types, there is insufficient spend to justify employing category managers at an individual authority level – clusters offer the opportunity to increase the scale of business and to negotiate enhanced levels of cashable savings
- ◆ Collaboration clusters are likely to vary from category to category

One notable outcome was the inappropriateness of engaging 'nationally' for most categories, which is not the same as using nationally available deals. The reason for this is related to complexity and the need to ensure commercial influence is not unreasonably diluted.

The detailed mapping is available in an Excel spreadsheet and is not included in this report. Table 2 shows some of the main category findings and Table 3 provides a short worked example how the techniques at 2.2.4 would be deployed on specific categories.

National	Regional	Sub-Regional / Clusters	Local
Characteristics <ul style="list-style-type: none"> ◆ Commodities and services provided by national suppliers / providers. ◆ Mainly low value / low risk. ◆ Use national contracts. 	Characteristics <ul style="list-style-type: none"> ◆ Common interest commodities and services with multiple providers, but where maximum leverage and/or market influence cannot be exploited by individual / groups London local authorities. ◆ Low / medium value / low / medium risk 	Characteristics <ul style="list-style-type: none"> ◆ Common interest commodities and services where there are multiple / common suppliers (including local ones) where cost can be removed through joint contracts / standardisation / removing duplication ◆ Medium / high value / low / medium risk 	Characteristics <ul style="list-style-type: none"> ◆ Specific commodities and services where political imperative demands local accountability ◆ Medium / high value / medium / high risk
Clothing and Uniforms	Utilities	Legal Services	Housing Management
Furniture	Highways Equipment / Materials	Grounds Maintenance	Healthcare
Office Supplies / Stationery	Mail services	Health and Safety	Adult Social Care (some)

National	Regional	Sub-Regional / Clusters	Local
Domestic Goods	Sports and Playground Equipment	Building Construction Contracts (some)	Leisure Management
Catering Equipment	Street and Traffic Management Equipment	Construction Materials	Refuse Collection
	ICT Hardware / software / Telecoms / Maintenance (most)	Highways Maintenance	Property Management
	Cleaning Services (Some)	Vehicles and Associated Maintenance	Environmental Management
	Educational Supplies	Temporary Agency Staff (some)	ICT Outsourcing
	Catering Food (Most)	Facilities Management (some e.g. lifts, security, printing)	Consultancy (some)
	Temporary Agency Staff (some)	Consultancy (some)	Building Construction Contracts (some)
		Adult Social Care (some)	Passenger Transport (some)

Table 2 – Mapping Summary of ProClass Level 1/ 2 Categories

Macro Category	Existing Mechanism for collaboration	New Opportunities to be developed		
ICT	e-Auction for ICT Hardware (16 London authorities)	Increasing scope for e-auctions to software. Telecoms etc Common specifications and greater standardisation	SRD programme e.g. Northgate / Unit 4	Shared sub-regional contracts for systems / hosting
Highways Maintenance	N/a	Standard specifications for materials such as black top, paving / kerb	Shared Sub-regional maintenance contracts including electrical testing	SRD programme e.g. F M Conway, Volker, Ringway

Macro Category	Existing Mechanism for collaboration	New Opportunities to be developed		
		stones / lampposts	e-Auctions for materials	
Food and Catering	N/a	Regional contracting for frozen food delivery	Sub-regional category management	SRD programme e.g. 3663
Construction	Some national framework contracts	Standard specifications for materials including doors, windows, kitchens etc	Shared sub-regional construction framework contacts	SRD programme with Kier Group, Apollo, Wilmot Dixon
Commercial Fleet	Some national framework contacts for vehicle purchase	Standard specifications for vans and min-buses and fleet management software	Shared contracts / e-auctions for vehicle acquisitions	Shared maintenance facilities

Table 3 – Worked example of how category collaboration could work in future years

Most categories were spread over more than one level, reflecting the need for proper segmentation in order to maximise London's leverage in markets and with individual providers/suppliers. The split levels for engagement for some categories and the ability for categories, particularly those at a local level to move upwards to become shared is an important point for future engagement. As the availability of commercial skills increases and shared contracting / collaborative working becomes more prevalent, then there is likely to be a greater appetite to rethink a lot of categories which have been allocated as best being acquired locally. The level of collaborative working for London's procurement expenditure has been low in value terms to date. If it is to grow significantly most authorities will require firm evidence that the categories already identified as being right for collaboration will deliver equal or better outputs at significantly less cost. Only then will concerns about risk exposure and losing absolute control of a contractual relationship allow collaboration to be further extended. This underscores the need for sound governance to ensure that this momentum is achieved very rapidly.

The final part of the analysis was to cross check the categories allocated to each level on the Supply Positioning model (see Figure 3). This was to ensure that individual local authorities were keeping control of high risk commodity areas (shown as red and yellow in Figure 3) while collaboration and shared contracting became much more widely established across London. The analysis at Figure 3 suggests that the correct engagement allocation has been made for categories identified as being right for collaboration.

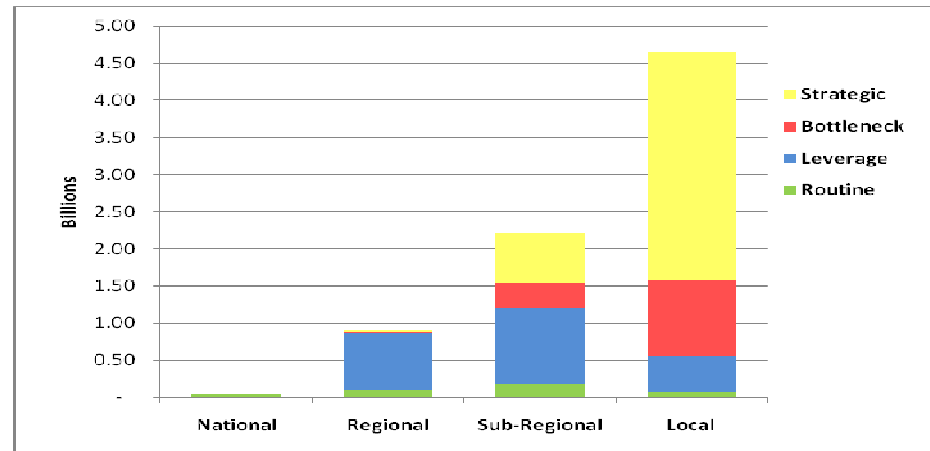


Figure 3 – Supply Positioning for expenditure designated at each level

3.3 Business Case for Change

Many authorities are seeking to deliver a minimum of 5% savings from their procurement expenditure over 3 consecutive financial years to gain a 15% overall expenditure reduction, according to Capital Ambition research. This means taking out nearly £40M per London local authority over the 2010/11 to 2012/13 period or £13.5M per annum. Some of this will be delivered through not renewing contracts, individual contract renegotiations and use of demand management. However, this will not deliver all that is required.

Meeting the savings challenge is made even more difficult by the fact that:

- ◆ Much of the expenditure is under contract and as little as 25% of the annual total (circa £66M per London local authority) may be subject to market exposure each year
- ◆ Corporate procurement teams often have limited resources and those based in service departments do not always have the required time / commercial skills to dedicate to the pursuit of cashable savings
- ◆ Current organisational models and processes can often constrain individual authorities from deploying a full range of savings techniques

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The most immediate options for success will be either to reduce current demand (consumption management) or work with the contractor to take out cost (the purpose of SRD). In reality, London local authorities will be hard pressed to meet these savings targets on their own, particularly where they are offset by demand driven cost increases in some spend areas. (E.g. care provision).

The current business metrics and outcomes from the expenditure mapping shows that collaboration remains the best opportunity for generating new sources of cashable savings needed to realise targets. The main techniques to deliver cashable savings considered at 2.2.4 all require multiple partners (i.e. collaboration) to work with the exception of price uplift management, demand management and individual contract renegotiation. As an example, category management is a well acknowledged and accepted¹⁹ way of delivering significant levels of cashable savings, often taking 10 to 20% from direct category costs. Most authorities did not have any category managers in post which negates this cashable savings source. However, by seeking to recruit and share these resources, such as the way WLA has done with its Adult Social Care procurement team, category management becomes rapidly achievable as a technique.

Evidence from collaborative work on highways maintenance, postal services, telephony, ICT hardware, construction, energy, and commercial vehicles, shows that no single London authority can be deemed to be high performing across the board when it comes to procurement/ commissioning activity. Following the collaborative / shared contracting path offers every London local authority cashable savings opportunities. The only issue is determining the scale of the savings for each authority for each category.

¹⁹ The NAO / Audit Commission Report – *A review of collaborative procurement across the public sector*, published in May 2010 reiterated this point

4. Embedding Collaboration

This section sets out the role that Capital Ambition has played in promoting and supporting collaboration to date how collaboration can be extended in the future.

4.1 Building on Success

Section 2.2 set out the six prerequisites for successful collaboration. These are;

- ◆ Shared Information and Common Data Standards
- ◆ Exercising Influence
- ◆ Skills and Capabilities
- ◆ Adopting the Right Techniques
- ◆ Optimum Engagement Level
- ◆ Sound Governance

London local authorities have already proved, through their own efforts, that collaboration works. However, it does present challenges to previous thinking where individuals and departments have operated in an environment of total autonomy. In managing the change process, the challenges are to:

- ◆ Build on what has already been done
- ◆ Extend its range and the scale on which it is undertaken
- ◆ Reduce the time it takes to achieve outcomes
- ◆ Ensure the governance is in place to underpin collaboration

London authorities, working with Capital Ambition, have already been preparing the ground:

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- ◆ The shared information and common data standards are already largely in place.
 - ◆ It has an integrated contracts register service / expenditure analysis tool utilising a standard classification structure allowing unlimited user access and containing three years of information. Although still evolving, some authorities have exploited it to drive collaboration while others have not. At a total cost of £122k per annum – this equates to less than £3,700 per London authority - far less than could be achieved by any individual authority
 - ◆ A classification service contracted on behalf of all RIEPs offering full mapping services and cross referencing to disparate coding structures. This costs service £49k per annum or less than £1,500 per London authority
- ◆ The savings tools and techniques are widely understood and Capital Ambition has projects in at least four significant commodity areas where they are now starting to be applied – energy, ICT, highways maintenance and commercial fleet which account for about £934M or 10.5% of London's third party expenditure. Supplier Relationship Development (SRD) is now being deployed beyond the pilot candidates of Veolia and Care UK to other contractors such as Volker, F M Conway, and Northgate with other major firms continuing to be identified
- ◆ Electronic Knowledge Exchanges (EKEs) which have been designed and built to underpin collaboration and demand management cover the temporary agency staff and professional services categories – another £626M or 7% of London's total spend. Although not funded beyond 2010/11, the maintenance fee to manage the EKEs costs under £20k per annum or less than £700 per London authority. The agency EKE in particular has been designed to support best practice in demand management and could soon contribute some real value, particularly if it were extend beyond the eleven authorities that currently use it
- ◆ There are new collaborative opportunities also being developed at a sub-regional level, including in the adult social care and banking and finance categories (West London Alliance), and transport and grounds maintenance categories (North London Strategic Alliance). East London Strategic Solutions (ELSS) are also working closely with Capital Ambition to extend sub-regional collaborative working into those categories, such as highways and commercial fleet where the optimum engagement level is at a sub-regional / cluster level. Some of this research work is being funded by Capital Ambition, specifically for ELSS and NLSA

4.2 Next Steps

Assuming that the case for collaboration / joint contracting and shared resources is accepted, then the actions that now need to be taken are now:

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- ◆ Agreeing a broad set of priorities for extending collaborative working, recognising that every category requires a different approach and there is no 'one size fits all' or preferred model for accelerating collaboration that every authority will favour
- ◆ Agreeing the categories, based on the current mapping exercise, which should continue / become subject to collaborative working at whatever level is deemed appropriate / advantageous
- ◆ Creating the conditions for far greater cross sector working and shared contracting, including the NHS, higher education and central government in those areas where there is demonstrable business case for such an approach
- ◆ Ensuring that what is already in place and working is, wherever possible, safeguarded, post March 2011

There are five possible approaches for extending the benefits of collaboration across London. These are through:

- ◆ Regional Management
- ◆ Sub-Regional Management
- ◆ Voluntary Cluster of Authorities
- ◆ Closer Links with other public sector organisations (e.g. NHS, and higher education)
- ◆ Greater private sector involvement / outsourcing

Do nothing and collaborate at a national level offered no material benefits and were excluded.

Each of these approaches has a role to play in promoting and extending future collaboration.

Regional management still needs to exist in the future, as there are some categories where it is the only sensible future option (e.g. Utilities). There are also ongoing projects driven at a regional level that need to reach fruition and deliver the benefits that they clearly are capable of delivering. These include:

- ◆ Highways Maintenance which is being run and funded jointly with TfL and due to run for at least two years
- ◆ Commercial fleet which is due to run into 2011/12 at least, and which is in the process of highlighting significant cost savings and efficiency gains that could be accrued by nearly all London authorities
- ◆ ICT which is continuing with running the highly successful e-Auction programme and extending it across the wider ICT category

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- ◆ Energy which is continuing to deliver improved models of energy buying, cost benchmarking and collaborative working at a sub-regional / cluster level
- ◆ Construction with sub-regional contracting

Experience suggests that without some means of retaining ownership and governance of these projects at a senior level, engagement will rapidly diminish. These projects should continue to run for their existing life beyond 2011, with a London CEO sponsor and Treasurer Representative to ensure that resources are used wisely and the benefits come to fruition.

There is also the Capital Ambition work on information and common data standards provision (delivered through the OEA/CRS and ProClass embedding), that will allow future collaboration at all levels to be driven forward.

Sub-regional management in support of collective working is already well established in parts of London particularly in the West, and is increasing in the North and East. Also at this level, there is evidence of more localised suppliers /providers which are confined to a given part of London, which are most likely to be SMEs and third sector providers. The value of such organisations to a balanced and stable economy / vibrant market cannot be overstated. The WLA is leading the way in showing what can be done with its joint procurement team covering Adult Social Care and utilising and building on the Capital Ambition expenditure / contract information to set up an extended range of new sub-regional cashable savings opportunities with active backing of their Treasurers. However, arguably WLA is an exception, and a significant number of London authorities have limited to a soundly based sub-region.

Many London local authorities have got a good track record of linking with neighbouring / like minded partners (**Voluntary Clusters**) for the purposes of joint contracting or sharing posts. This process is expected to accelerate in the coming years. The advantage of this approach is that organisations tend to have a greater incentive to deliver a successful outcome, particularly as they would have provided most if not all of the start up funding. In the current financial situation, this would be ideal.

Joint working with other public sector partners also offers significant potential. The greatest synergy exists with the NHS, where there are many identical suppliers and shared issues. The main challenge with joint working is going to be making the connections at a local / operational level, a task made even harder by the recently announced changes regarding the future of PCTs. There is already some evidence of joint working, but it is very much in its infancy. The appointment of shared and better qualified category managers at a sub-regional / cluster level might accelerate this process.

The financial situation is widely expected to lead to more **outsourcing and involvement from the private sector**. Procurement and commissioning could be one of those areas considered. Outsourcing and private sector involvement are two different issues. The latter, particularly in terms of attracting top quality category managers and gaining more negotiation expertise, is a sound one. The appointment of shared Heads of Procurement and shared category managers (on a full time not interim basis) would allow London

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local authorities access to top quality specialists who, in most cases, could not be sourced by individual local authorities. Although the turbulence currently facing the public sector may deter some from applying, the downturn faced by major consultancy firms and other contractors from the loss of public sector business will undoubtedly release some excellent candidates in the short to medium term.

On the wider issue of outsourcing procurement, this needs careful consideration if it is to deliver the necessary outcomes and cost reductions. In particular:

- ◆ The procurement outsourcing market is weak in terms of track record and proven suppliers beyond the basic categories
- ◆ The business case for outsourcing procurement activity at an individual local authority level remains highly marginal unless it is able to capture the business volumes from other public sector organisations
- ◆ Outsourcing in its own right will not extend collaboration unless it can achieve a critical mass of local authorities in a very short timescale

The private sector does have a role to play in advancing collaboration but through selective targeting of opportunities rather than as a general principle.

Table 4 shows how multi-level collaboration might fit together beyond March 2011.

Option	Contribution	Likely Follow on Costs	Issues
1. Regional	<ul style="list-style-type: none"> ◆ Shared Information and Common Data Standards ◆ Opportunity Analysis Alerts with one analyst ◆ Regional Collaborative Steering Group – to manage communications and prioritise opportunities ◆ Repository of intelligence reports (e.g. SRD with a single point of commissioning and shared cost) ◆ Completion of current collaborative 	£200k per annum	<ul style="list-style-type: none"> ◆ Part of the Future Shape – post March 2011 ◆ Hosting and funding to be resolved ◆ Ensure that key collaborative category projects keep funding to allow completion

Option	Contribution	Likely Follow on Costs	Issues
	category projects		
2. Sub-regional	<ul style="list-style-type: none"> ◆ Develop and extend existing collaborative work plans ◆ Validate and exploit expenditure mapping opportunities ◆ Promotion of shared procurement teams and resources ◆ Commissioning of supplier focussed SRD programmes 	Each new category needs have business justification and be self funded	<ul style="list-style-type: none"> ◆ Not all authorities have such a grouping ◆ Flexibility to join both a sub-regional group or a cluster ◆ Sharing with others to ensure no duplication of effort
3. Clusters	<ul style="list-style-type: none"> ◆ Validate and exploit expenditure mapping opportunities ◆ Ad hoc joint contracting ◆ Promotion of shared procurement teams and resources 	Each new category needs have business justification and be self funded	<ul style="list-style-type: none"> ◆ Ensure governance is in place ◆ Internal mechanism needed at each authority to consider the proposed opportunity ◆ Need to be able to communicate local shared projects with wider London audience
4. Other Public Sector	<ul style="list-style-type: none"> ◆ Working with regional analyst ◆ Working on local engagement 	Nil	<ul style="list-style-type: none"> ◆ Representation on Regional Collaborative Steering Group
5. Private Sector	<ul style="list-style-type: none"> ◆ Rapid expansion and embedding of SRD to target suppliers for removing cost from existing arrangements 	Officer time – not costed	<ul style="list-style-type: none"> ◆ Need to avoid duplication of effort – e.g. commissioning analyst reports ◆ Need for completion of SRD in a box ◆ Need to communicate engagement projects with other London clients ◆ Ensure governance is in place to capture cost reduction opportunities

Table 4 – Illustration of how a hybrid option could evolve

4.3 Beyond Capital Ambition

Any successor bodies post Capital Ambition will need to recognise the well established rules for successful collaboration. These are:

- ◆ The need for a Collaborative Steering Group, comprising Chief Officers, and preferably chaired by a CEO if covering multiple projects, to ensure progress is made and results achieved
- ◆ The need for shared information using common data standards, with a suitably qualified analyst to highlight opportunities and research any missing gaps. This is essential for producing the business case for each category covering resources needed and likely ROI
- ◆ Communications needs to be excellent to prevent duplication of effort and ensure sharing of opportunities and outcomes
- ◆ Each local authority need to nominate a senior officer responsible for:
 - ◆ receiving details of all identified external collaborative opportunities and passing them to the appropriate groups
 - ◆ obtaining a local decision as to whether to participate
 - ◆ communicating new ideas or opportunities to collaborate to the Steering Group and/or the analyst
 - ◆ reporting progress to Chief Executives and Treasurers – probably on a monthly basis
- ◆ Progress should always be determined by the fastest not slowest authorities. If an authority is uncertain as to whether to commit to a collaborative proposal, then work should still proceed keeping the option open for that authority to rejoin at a future point

Regardless of how each authority wishes to collaborate and on what, the above rules will need to feature in any governance arrangement.

Although Capital Ambition will not exist beyond June 2011 in its current form, there needs to be a residue structure that will be seeking to promote and encourage the drive for cashable savings. While there is a need to safeguard those projects / systems that are currently driving collaboration across London, there is also a need to decide how best to accelerate collaboration and shared contracting given that progress is very uneven with some categories developing well while others remain to be exploited.

Capital Ambition should be seeking in its remaining months to refine and prioritise categories that are fit for collaborative working / shared contracts into waves and publish it to all CEOs and treasurers. It will then be down to authorities to organise themselves, in terms of finding partners, developing the appropriate business case and starting the process. Funding could then come either from within the authorities concerned or via a Capital Ambition grant that becomes repayable once the opportunity has been delivered (e.g. After an e-Auction or once a shared contract was let).

In terms of driving collaboration at regional level, Capital Ambition needs to ensure that there is continuity on what is already in place

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and that there is an ability to act as a future catalyst to ensure progress is made.

In particular, and consistent with the rules of engagement set out, it needs to:

- ◆ Have some form of Regional Collaborative Steering Group (RCSG), possibly formed along the lines of, or replacing, the Capital Ambition Procurement and Shared Services Board to ensure that collaboration happens and delivers results at all levels
- ◆ Keep the collaborative tools it already has CRS / OEA and Agency EKE and ensure that the drive for enhanced data quality via ProClass is continued
- ◆ Support those collaborative projects underway in categories such as ICT, energy, highways, commercial fleet, and construction and ensure that they deliver their benefits potential
- ◆ Ensure that each local authority has a nominated senior officer responsible for:
 - ◆ receiving details of all identified collaborative opportunities and passing them to the appropriate groups
 - ◆ obtaining a local decision as to whether to participate
 - ◆ communicating new ideas or opportunities to collaborate with the RCSG
 - ◆ ensuring that the local CRS/OEA administrator is doing his/her job in keeping information current
- ◆ Produce progress reports for CELC and potentially London Councils Leaders

These activities would be expected to be constrained into a fixed budget and any extensions or changes would need to be subject to a formalised approval process.

5. Recommendations

This section covers the recommendations made to support the harnessing of the opportunities highlighted in this report.

5.1 Recommendations

It is recommended that the Capital Ambition Programme Board:

- [R1]** Agrees the outcomes from the expenditure mapping exercise and associated business case for extending collaborative working / shared contracting into these category areas
- [R2]** Supports the ongoing residual role beyond March 2011 for maintaining regional collaboration including the retention of the CRS/OEA to support the sharing of information, the migration towards common data standards and the provision of a regional analyst resource
- [R3]** Notes the ongoing contribution towards the generation of new sources of cashable savings from the current energy, ICT, highways maintenance, construction and commercial fleet projects and supports their continuity after March 2011, subject to any financial considerations
- [R4]** Agrees that the level of collaboration required will vary on a category by category basis rendering a single organisational model for London local government impractical, but notes the need to promote minimum rules to ensure that collaboration can work
- [R5]** Develops a concise prospectus setting out the priorities for those categories deemed to be capable of extended collaboration, including opportunities to be looked at minimum functional content
- [R6]** Supports monthly reporting to London Chief Executives and Treasurers on progress being made with the extension of collaborative working

Appendix A – Terms of Reference and Study Details

Terms of Reference

Introduction

Procurement expenditure for 2008/9 across London was about £8.9 billion covering an extensive range of services, products and projects. This was delivered by on average 6,000 supplier per boroughs, although many were duplicated and used by multiple organisations. Most spend is concentrated in the hands of a few suppliers, with nearly 60% of London's spend being directed at the top 1,000.

With the downward pressure on costs being estimated at between 20 to 40% across London, it is evident that procurement needs to significantly improve its performance urgently. There is little reason why authorities should not be targeting to remove about 15% of the current spend, by smarter working, coordinated negotiation, and withdrawing from contracting for any routine commodities. In addition, there is a strong case to understand the optimum level of engagement for each commodity / service area (i.e. national, regional, sub-regional, local).

At its July meeting, the Capital Ambition Programme Board asked for a report on the organisation and management of procurement across London and its ability to meet the financial challenges of delivering significant cashable savings.

The Study

The Board is seeking the following information:

- ◆ List of current organisations to support procurement in London local authorities, including their scope, structure and accountability
- ◆ An overview of how other public sector bodies in London organise their procurement, including a summary of issues and potential overlap / synergies with local government
- ◆ An indication of the likely future direction of travel from central government where available
- ◆ An analysis of spend by region and, where possible sub-region

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- ◆ A mapping exercise of spend using all ProClass²⁰ with an indication of the optimum level of where the optimum level of engagement would be to maximise cashable savings across London, together with an indication of the magnitude of savings that would be likely to accrue
- ◆ An indication of cashable savings targets already set for each local authority together with an indication of what has been achieved since 2008
- ◆ An analysis of the gaps between existing organisational structures and what would be needed to deliver the magnitude of cashable savings identified – with a banded analysis of savings opportunities if possible
- ◆ Recommendations as to the way forward, what decisions need to be taken and key milestones
- ◆ A model business case for any proposed structural changes

The study fieldwork and research will be undertaken using the following sources:

- ◆ Research and analysis using the Capital Ambition expenditure database
- ◆ Interviews with key players including LCSCG, LUPC, London NHS, ERG, SLT, WLA and London ALMOs
- ◆ Questionnaire sent to London Heads of Procurement

Outputs

The result of the fieldwork and research will be assimilated into a written report with any key supporting documentation included in separate appendices. Maximum use will be made of easy to read comparative tables and accompanying spreadsheets. The report will also note details of when and with whom contact was made with any organisation, together with any information which was either withheld or not forthcoming for whatever reason.

²⁰ The local government procurement classification with Corporation of London holding the IPR on behalf of English local government

Appendix B – London's Five Sub-Regions

West London Alliance

Harrow, Hounslow, Ealing, Brent, Hammersmith and Fulham, Hillingdon, Kensington and Chelsea (Westminster allocated given that current collaboration levels)

North London Strategic Alliance

Enfield, Barnet, Haringey, Waltham Forest, Hackney, Islington and Camden

East London Strategic Solutions

Havering, Barking and Dagenham, Newham, Tower Hamlets, Redbridge (Corporation of London added here)

SE London (New)

Lambeth, Southwark, Greenwich, Bexley, Lewisham and Bromley

South London Partnership

Sutton, Croydon, Merton, Wandsworth, Kingston upon Thames and Richmond

NB – membership of these groups does vary, but this represents the closest fit on procurement / commissioning activity.

Appendix C – Current Structures and Organisation

Pan London

The ability to promote joint contracting and a more joined up approach at a regional level is limited with the **London Contracts and Supplies Group** ²¹(LCSG) being the only local government body undertaking this role. It has achieved some good successes over the years, but it lacks real influence and has no dedicated resources to manage a large portfolio of contract work. Even today its 30 or so contracts account for no more than 1 to 2% of London's total third party expenditure. In the last year, a **London Heads of Procurement** forum has been created which meets quarterly at London Councils. However, this is mainly a policy forum rather than a contracting / commissioning organisation.

There has been widespread recognition that alternative approaches and structures may be better suited to delivering results. The **West London Alliance** (WLA) has created a joint procurement team for Adult Social Care and this is already delivering exciting results. Since September 2009, the Unit has successfully resisted some **£4.3M** of price uplift requests and is building a work programme based on maximising the leverage and negotiation capability of its constituent authorities. Similarly, the WLA Heads of Procurement group have researched and tabled a work programme with the active backing of the Treasurers Group. This programme, which has been put together by RB of Kensington and Chelsea, is designed to introduce joint contracts and deliver a sustained programme of cashable savings. Other sub-regional groupings including the **North London Strategic Alliance** and **East London Strategic Solutions** are also now taking a similar approach.

Other sectors with pan-London procurement operations have similar operational models and issues/challenges to those in local government. In Higher Education most universities and colleges have their own procurement operations, but at a regional level there is the well established and respected **London Universities Purchasing Consortium** (LUPC) which is a self funding company with an annual turnover of about £550K per annum. The LUPC was set up in 1968 and is funded by subscriptions from HE institutions (circa 50); from rebates against contracts that it negotiates on behalf of its members and other revenue raising work such as the provision of training and consultancy services. This allows it to employ four dedicated staff and provide a range of useful training and development programmes. Local authorities can, and do, use its contracts by becoming associate members, although apart from energy, there has been little link up with London local government to date.

²¹ This group has evolved through an informal network since its formation from the former GLC

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In the NHS, the **London Procurement Programme** (LPP) has been co-ordinating the **£6.3B²²** annual expenditure in London and is focussing on eight work streams including professional services, agency staff and legal services. The organisation is complex and about to change again with the abolition of the 31 Primary Care Trusts (PCTs). A bulk of the procurement activity is undertaken via the 10 Mental Health Trusts, 29 Acute Trusts and the London Ambulance Service (LAS). Even though the business case for delivering cashable savings through combined working and redefining the point of optimum engagement with suppliers / markets is strong, LPP has found it difficult to break through locally vested interests within Trusts. The opportunities for joint working between London local government and London NHS are real and achievable. Both are either working or planning to work on the Care UK SRD programme (a big area of overlap) and the 2008/9 ProClass mapping for Hammersmith and Fulham PCT showed a 97% overlap on common products and services with the local authority.

The **London Housing Consortium** (LHC) offers an extensive range of framework contracts for construction materials to London local government. However, uptake tends to be patchy with about 20 London authorities currently taking advantage of these arrangements. Opportunities to standardise on ranges (e.g. for kitchens and bathrooms) and use e-Auctions to drive down unit cost are not taken because of a reluctance to collaborate and the inability of a lot of London authorities to provide forward projections for future requirements.

National

Public Buying Organisations²³ (PBOs) (sometimes called PRO 5) are either quasi-commercial operations based around stores activity (e.g. ESPO, YPO, and West Mercia Supplies) or are virtual bodies (e.g. the Central Buying Consortium). These are in basically local government trading hubs, usually owned by an individual or group of large councils.

Most PBOs tend to be supplies / commodities orientated which, for most London authorities, would not account for more than 5 to 7% of their total third party expenditure. They are also a major source of pre-tendered framework contracts, but many of these are duplicated and often provide questionable value for money when benchmarked against what individual authorities can achieve locally as they are tendered without any guaranteed volumes. Successful bidders have no guarantee that they will receive any orders for their efforts, and often only provide list prices as a result. In many cases, the quoted savings are no more than 'savings in staff time' through not having to follow the time consuming EU Public Procurement directives.

²² £2B of this spend is on pharmacy

²³ There are 45 of these across the UK public sector according to the HMT Operational Efficiency Programme (April 2009)

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The Operational Efficiency Plan²⁴ (OEP) published by H M Treasury in April 2009 gave a devastating assessment of the national procurement landscape when it said, that it was "**inefficient, fragmented and uncoordinated.... that have evolved in an unplanned manner, overtime, with varying business models, no clear common vision and no clear governance**".

London local authorities use the PBOs for items such as fuel, vehicles, furniture, photocopying and mobile communications, although this accounts for 1% to around 5% of total third party expenditure. Efforts are being made to increase the volume of business that is acquired through the PBOs, but the main problems are:

- ◆ For most commodities 'national contracts' are too remote to be customer responsive
- ◆ Most frameworks do not have advertised e-Auction capability, an insistence on common specifications, or projected volumes – all of which are essential ingredients in the drive to reduce unit costs
- ◆ Customer service is often poor (a weakness confirmed by the **London Energy Project** (LEP) when evaluating Buying Solutions and Laser) with a reluctance to benchmark performance
- ◆ Limited dedicated category or relationship managers managing contracts
- ◆ Poor information availability including terms of business, service levels, charges, contract scope, and performance benchmarking
- ◆ Duplication of contracts between PBOs

²⁴ HMT Treasury ISBN 978-1-84532-587-9